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Project «A test for European Solidarity»

Is the CAP a ground for European disunion?

An assessment of the solidarity mechanisms created by the CAP and their relevance after 2013

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Policy
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Paper

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Presentation of the project «A test for European solidarity»

With the economic and financial crisis having hit European countries in different ways since 2008, the EU is considering how far each country is responsible and what kind of solidarity is needed to overcome this challenge. Europeans have hastily set up solidarity mechanisms that their monetary union was lacking. Questions about the legitimacy and the limits of European solidarity are now very much being asked out in the open.

They are all the more crucial as they generate tensions in national public opinions and among European political decision-makers. These tensions are not just about macroeconomic issues but have recently been about solidarity mechanisms put in place in the 'Schengen area' and also relate to the different extents of other EU interventions, such as in the area of agriculture or energy.

In this context, *Notre Europe*'s work is inspired by the vision of Jacques Delors, who advocates articulating European policies around three key points that are more necessary than ever: “Competition that provides a stimulus, cooperation that strengthens and solidarity that unites.” This vision, which embodied the Single Act of 1988, draws inspiration in particular from the 1987 report entitled « Stabilité, Efficacité, Equité » [Stability, Efficiency, Fairness], in which Tommaso Padoa Schioppa sets out how to push ahead with European economic and social integration in a balanced way.

Having put solidarity at the heart of the European forum of think tanks held in Barcelona in September 2010, *Notre Europe* has defined a broader project on this theme, which will allow it both to publish crosscutting reflection documents as well as ‘policy papers’ covering different sectors.

Note for readers: most of the analyses and proposals that follow are inspired by the report cowritten by Jean-Christophe Bureau and Louis-Pascal Mahé, “CAP reform beyond 2013: An idea for a longer view”, Studies and research No.64, *Notre Europe*, 2008. For more details, readers can consult the report on Notre Europe’s website: *http://www.notre-europe.eu/en/axes/competition-cooperation-solidarity/works/publication/cap-reform-beyond-2013-an-idea-for-a-longer-view/*

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INTRODUCTION

The Common Agricultural Policy (CAP), a sectoral policy at the heart of European integration, has ambiguous links with solidarity. The free movement of farm products in the common market, set in motion by the signing of the Treaty of Rome in 1957, was attached to the creation of the three types of solidarity that gave birth to the CAP: solidarity between member states to finance their agricultural aid; creation of a customs union common to six countries, called 'Community preference'; solidarity of the Community towards its farmers whose income is lower than the average income of the population. But these initial mechanisms have been distorted and weakened over time. The biggest item of spending in the EU's budget, the CAP has been at the heart of deep disagreements between EU member states despite three reforms (1992, 1999, 2003). This situation is mainly due to its redistribution effect towards big farming countries and their farmers. These problems of fairness are problematic for European integration because they could "lead first to a lack of cooperation and, finally, to a threat of secession"[1] between the member states. The EU must therefore take care that the "gains resulting from Community policies do not accentuate themselves to the point of engendering growing political discontent towards the Community in some countries". Without a solution to this fundamental problem, the CAP is subject to virulent attacks that ignore the positive contributions of some CAP measures to the cohesion of the EU.

The CAP is an economic policy whose main aim needs to be agricultural competitiveness. Its maintenance on a Community scale is justified because it makes it possible to ensure the provision of rural European public goods on the one hand and it contributes to the economic, social and territorial cohesion[2] of the EU on the other hand. Within the meaning of the Single Act of 1988, that means that the CAP, as an EU policy, must respond to potential problems of spatial distribution of the economic gains of integration[3]. For Jacques Delors, rural and natural areas, mainly managed by farmers, play an irreplaceable role in a balanced territorial European integration. Indeed agriculture and rural areas are an important lever in Europe's economic and social development as they are an essential driver for marginalised areas and are a full part of the model of European society. And now enshrined in the Treaty on the European Union, the principle of cohesion further encourages making the CAP coherent with this vision.

The coming adoption of a new budgetary envelope for the CAP comes against a background in which its legitimacy is being challenged. It is

1. Padoa Schioppa, 1987
2. The principle of cohesion is based on the idea of a harmonious development of economies by reducing regional disparities(Jouen, 2009). It envisages a transfer of funds between regions or countries, making it possible to reduce inequalities and favour growth.
3. Indeed the latter engenders vicious and virtuous cycles of development, which can emerge in the different regions of a unitary integrated economy. The opening up of markets being capable of being accompanied by unfavourable effects related to relatively painful adjustments that justify active intervention by public authorities. In addition, while they can amount to strategic economic progress for the Community, policies to improve the competitiveness of the Community could also exacerbate the problem of regional disparities if energetic action were not taken to reduce the geographic handicaps of the currently least favoured regions [...] Finally, when the pressure of demand – for the economic activity – is weak, the least favoured regions will have the tendency to be those hit hardest. Ibid. p.120-121

essential to assess solidarity and cohesion mechanisms put in place initially and to assess their relevance in the current environment. This approach of course gives us a deforming[4] prism for this policy because it focuses only on the main mechanisms that act in favour of solidarity. It proposes to assess the three initial types of solidarity of the CAP as well as measures that appeared with the arrival of the Delors I Commission, into the framework of the economic and social cohesion of European territories. While these mechanisms were created to respond to a historical economic context, we propose going back to its origins and then examining their relevance given the current context and the period after 2013.

4. For Notre Europe's full vision on the CAP and its reform after 2013, see Bureau, Mahé, 2008

I – European solidarity and the CAP: a two-step process to set it up

The CAP is an economic policy started by the six founding EU member states, unanimous on the need to unify national support systems given the establishment of the common market that was born in 1957. The Common Agricultural Policy arrangements defined in 1962 created three forms of solidarity: financial solidarity, action in favour of raising the income of the farming population and the Community preference (Part 1.1). These initial forms of solidarity were complemented as from the 1970s but above all in the 1980s by the new dynamic of integration launched by the Single Act. Characterised by a wish to preserve the cohesion of the Community, compensation for natural handicaps and food aid were developed (Part 2.1).

1.1. 1962: Creation of three dimensions of solidarity by the Treaty of Rome

1.1.1. Financial solidarity, principle and functioning

European solidarity in terms of farming was expressed initially in the financing of the CAP. In 1958, the Declaration of Stresa defines the bases of it: "In the name of financial solidarity, all the member countries of the EEC take part in the financing of the burdens of the Community such as guaranteed prices for farmers, the export of surpluses or even the policy of aid and improvement of structures. All the costs engendered by the CAP must be borne in common." This principle was retained on 30 June 1960 as one of the six axes[5] in putting in place the CAP, in the proposal of the President of the Commission, Walter Hallstein, and Vice-President Sicco Manshot in the Council of Ministers. After half a century of existence, despite reforms engaged since 1992 and the lack of an explicit reference to the principle of 'financial solidarity' in the Treaties[6], the latter was recognised as one of the three foundations of the CAP with the uniqueness of aid and the institutional prices in the EU and Community preference[7]. This act of pooling financial resources in the Community implies that member states accept contributing to a common pot without looking at the budgetary return, to finance political goals that they agree on. That also implies that customs duties collected at the frontiers of the EU for imports from third countries become a source of revenue not for member states but for the common budget[8].

The **European Agricultural Guidance and Guarantee Fund** (EAGGF) is an instrument of financial solidarity between member states. Created in

5. On 30 June 1960, the Commission proposed to the Council of Ministers: to establish the uniqueness of the market based on the free movement of farm goods / to organise markets by products, with prices being gradually unified and guaranteed / to ensure Community preference / to make joint intervention possible / to create a European Agricultural Guarantee and Guidance Fund (EAGGF) / to put in place financial solidarity. Source: European Navigator website.
6. Bureau, 2007.
7. Imports must not enter at a price lower than the minimum guaranteed price.
8. Source : Europedia website.

January 1962, this Community institution manages the financial means of the CAP. As from 1964, it was split into two parts: the EAGGF guarantee fund financed the market policy and prices policy and mainly covered compulsory expenditure; the EAGGF guidance fund financed structural measures, and contrary to the EAGGF guarantee fund, was based on the principle of cofinancing. National bodies serve as relays between the EAGGF and farmers. They intervene by buying or stockpiling excess products and receive funds destined to finance CAP expenditure.

Since 1 January 2007, the EAGGF has been replaced by "the European Agricultural Guarantee Fund (EAGF), which finances direct payments to farmers and measures to regulate agricultural markets such as intervention and export refunds, and the European Agricultural Fund for Rural Development (EAFRD), which finances the rural development programmes of the Member States".[9]

Whilst the EAGF sometimes cofinances measures with member states, the EAFRD systematically cofinances programmes with states, regions and sometimes involves private cofinancing.

The CAP budget will remain the largest item of expenditure of the EU until 2013 in spite of a constant reduction of its relative share and the diversification of its objectives. Expenditure accounted for 70% of the common budget in the 1980s, "the agro-rural budget envisaged for 2013 is 59.7 billion euro, equivalent to 37.4% of the total, below the percentage attributed to the CAP at the beginning of the financial perspectives. »[10]

9. Definition from DG Agriculture-European Commission.
10. Massot Martí, 2010.

1.1.2. Income support and compensation of handicaps: contrasted precursors of cohesion

Ensuring a fair standard of living for farmers: the solidarity of the Community towards this population

From the outset, the CAP has demonstrated a concern that could be described as a precursor of the goal of cohesion[11]. One of the five objectives of the CAP set out in Article 39 of the Treaty of Rome is to ensure "a fair standard of living for the farming population, in particular by raising the individual income of those who work in agriculture". This objective demonstrates the concern of the six founding member states for the income of farmers to be raised at a time when the average income of farmers was lower than that of the rest of the population. The Treaty envisages that the increase in revenue would come about thanks to an increase in productivity, which would take the form of support of an economic nature: encouraging production through a guaranteed price policy.

Today the objectives assigned to the CAP by the Treaty continue to be identical to those from 1957. However, since the reforms set in motion in 1992, the support arrangements have been considerably reviewed. Most aid no longer comes via an intervention mechanism on prices but via a single payment system to the farm decoupled from production and based on historical production references. Regulation No. 1782/2003 specifies that, from then on, the objectives are to promote sustainable agriculture that is more market-oriented. To achieve that, the regulation advocates "moving from support for production to support for the producer, by introducing a decoupled system of income aid for each farm".[12]

11. Bureau, Mahé, 2008.
12. Regulation (EC) N° 1782/2003.

Compensation payment for natural handicaps (1973)

The Treaty of Rome envisages that the development of the CAP takes account of the "particular nature of farm activity, flowing from the social structure of agriculture and structural and natural disparities between the different agricultural regions" (Article 39.2.a). However, this original concern for territorial disparities had few effects in the first decades of the CAP because of the relatively small budget devoted to so called structural policy (EAGGF guidance fund) to improve the competitiveness of the farm and food industries of the areas lagging furthest. In the early 1970s, the idea of extending the structural policy budget was firmly dismissed by George Pompidou, refusing the principle of a "Brussels Commission correcting regional and structural disparities" and for "considerable sums" to be used for this purpose[13].

The concern for these territories truly appears in a 1973 Directive relating to mountain agriculture and agriculture in certain areas disadvantaged by natural handicaps. It aims to maintain farming activity, avoid the rural exodus and preserve the environment by allocating specific aid that compensates the productivity handicap due to the topography (slope and altitude), poverty of soil, a relative lack of socio-economic development and the protection of fragile natural environments. This compensation payment for natural handicaps came into force on 28 April 1975 with the establishment of an annual Community subsidy: its necessity arises for the Community in so far as the farms located on these territories are permanently affected by surplus costs while the maintenance of a farm activity contributes to maintaining a high quality environment there (the concept of the 'cow as a mowing machine'). Nearly forty years after they were created, these measures "continue and maintain a specific place within an agricultural policy accused of neglecting the objective of cohesion and promoting disparities between European territories".[14]

13. Noël, Willaret, 2007.
14. Extract from Chambon, Tomalino, 2009.

1.1.3. Community preference

The notion of Community preference, which is meant to privilege products from the Community over those of third countries is regarded as one of the three founding principles of the agricultural common market. Although it does not exist as such in the treaty.

After the failure of Green Pool – a European agricultural integration project promoted by France – in 1954, the Messina conference relaunched discussions on agriculture the following year but this time as part of a draft economic and social integration project between the six founding member states of the EU. German leaders[15], who wanted to relaunch European integration after the failure of the European Defence Community, knew that by ensuring outlets to French stocks of corn and sugar, France would support integration. In this context, discussions led to an agreement to include agriculture in the common market and for it to benefit from an external tariff whose amount was to be determined. Among the subjects for discussion on agriculture that proceeded the Treaty of Rome, France advocated a high 'Community preference'. It clashed with its partners who all considerably subsidised their agriculture sectors, but rejected the term 'preference' because of its strong protectionist connotation. Germany was the main opponent[16], as its agriculture customs tariffs continued to be low to import agricultural products from third countries buying German industrial products.

In order to get around the issue in 1956, French diplomats proposed an alternative to ensure outlets for farmers: to apply the principle of 'non-discrimination', in force for industrial products, to farm products. Accepted by the six founding member states the free movement of farm products between them, without any discrimination in the Community unifying internal rules for movement following the example of products coming

15. Comments made by C.Adenauer on 13 July 1954 during a cabinet meeting. See Guido Thiemeyer, 2009.
16. Bizet, Bret, Haenel, Ries, 2005.

from third countries. The former French diplomat Robert Marjolin explains: "I no longer asked for preferential treatment for French farm products, for example when they entered Germany, but I confirmed that it was within the logic of the Common Market that French products in Germany were treated by German authorities in the same way as German products, the same thing holding true for other countries of the Community."[17]

This explains how the negotiations had dismissed 'the Community preference' from the objectives assigned to the CAP in the Treaty of Rome. But the concept still has an influence on the establishment of the CAP. Indeed to ensure the competitiveness of products to be exported out of the Community, Article 45 exceptionally facilitates the import of raw materials from third countries. Moreover its Article 44 would temporarily authorise countries to increase their customs duties without that harming the development of a "natural preference between member states". This article, added to prevent liberalisation jeopardising the agriculture sectors of the six founding member states during the first phase of the Common Market, was to be given on 13 March 1968 permanent legal value by a ruling of the Court of Justice of the European Communities. Article 44.2 was to be abrogated in 1997 by the Treaty of Amsterdam. In a 2005 ruling, the Court of Justice of the European Communities was to recognise the political value of Community preference. The principle is still referred to in speeches by European decision-makers, first and foremost by French ones.

17. Robert Marjolin cited in Op.Cit.

Box No.1. Brief chronology of the principle of Community preference

1 January 1959: 1st phase of freeing up trade within the Community.

May 1960: French government secures a commitment to put in place a common customs tariff.

14 January 1962: Agreement on the market for crops and the foodstuffs that come from them (pork, eggs, poultry) and the establishment of a levy on imports from third countries that ensures effective preference within the Common Market.

16 July 1962: End of 'Dillon round' negotiations (GATT, General Agreement on Tariffs and Trade), which followed the creation of the Common Market. Tariff concessions of 6.5% on average.

1963: Franco-German agreement ending in the reduction of the common customs tariff for industrial products and the adoption of agricultural regulations.

13 March 1968: The Court of Justice consecrates the principle of Community preference by transforming the provisional principle of 'natural preference' enshrined in Article 44, paragraph 2 as a permanent principle. It stipulates that the Council must take account of it if the interests of consumers and producers cannot be met.

1 July 1968: Full establishment of the common customs tariff.

1970s: The EEC moves from the status of net importer of farm products to that of net exporter thanks to the success of the CAP mechanisms developed 20 years earlier.

15 April 1994: Marrakech agreements, end of the agriculture exception, trade in these products have to comply with the disciplines of the GATT. The then variable levies of the Community market are turned into fixed duties. A fall of 36% is envisaged.

1997: Abrogation of Article 44.2 of the Treaty of Rome, which recognises the principle of 'natural preference' by the Treaty of Amsterdam.

10 March 2005: The Court of Justice of the European Communities confirms in a ruling that Community preference is a principle that has no legal value but has a political value ⇒ it can no longer be invoked to oppose the liberalisation of trade.

Source: Box inspired by Jean Bizet, Robert Bret, Hubert Haenel, Roland Ries, Sénat, 1 December 2005

1.2. The Delors I Commission: the CAP from solidarity to cohesion

1.2.1. The slow creation of a rural development policy or the gradual integration of cohesion to the CAP

On 18 December 1985, a Commission memorandum analysed the shortcomings of the CAP in terms of cohesion and underlined that this situation lasts for a while. A huge debate on the future prospects of European agriculture ensued. The Commission advocated support for farming activity "in areas where it is essential for restructuring the use of land, maintaining social balances and safeguarding the environment"[18], *i.e.* for non-economic reasons. The Community incorporates its concern for rural areas in the European Single Act (1986) to "counterbalance possible negative impacts on the most fragile populations or territories"[19]. It would not take long for this new need to be taken into account. While enlargements were generating growing heterogeneity, the cohesion policy put in place by the Single Act embodied the wish to reduce imbalances between member states. Rural areas were envisaged as a specific target and rural development became one of the five objectives of cohesion policy (Article 130A).

"Support for the development of rural areas initiated by the cohesion policy is targeted, through objective 1, at regions lagging behind in development. In this context, funds are mobilised for rural areas in regions whose GDP is lower than 75% of the Community average. That is objective 5b aimed at 'promoting the development of vulnerable rural areas'"[20], which is the real official start of rural development in Community policies. These rural areas have a low level of socio-economic development and meet two of the three following criteria: high level of farm jobs; low level of farm income;

18. Commission of the European Communities, 1991.
19. Jouen, 2008.
20. Chambon, Tomalino, 2009.

low density of population or a trend for people to move out of farming. Since it was created, this objective concerns 8.2% of Europe's population (of the EU-12). Rural development policy, thought of originally as a cohesion policy tool, will be very gradually incorporated[21] into the CAP, as from 1992. However, the multisectoral approach, *i.e.* non-farming, that its advocates propose, was to generate mistrust from the historical beneficiaries of the CAP. In reality, rural development would for a long time continue to be limited by the weakness of the means allocated and would for a long time be dependent on the voluntary modulation[22] of member states.

Today the EAFRD[23] benefits from 20% of the funds dedicated to the CAP (*i.e.* nearly 96 billion euro) for the 2007-2013 programming period. The measures are cofinanced by the EU and member states. The latter can include in their Rural Development National Plans measures targeted at weak rural areas – grouped together in the third axis[24] of the second pillar of the CAP, entitled 'Improving quality of life and encouraging diversification of economic activities' – and Leader. This funding for fragile areas is, however, insufficient to compensate for the territorial disparities generated by direct payments. In 2008, 228,000 farmers received 1.3 billion euro, *i.e.* 5,700 euro on average under the heading of the second pillar whilst 389,104 farmers received 7.9 billion euro, *i.e.* 20,303 euro on average in the form of direct aid in 2009. Aid from the second pillar has a satisfactory 'leverage effect' with regard to the real needs related to the maintenance of life in a rural environment and can accompany the maintenance of an economic activity but the transfers are not equivalent to those in the first pillar.

21. For a history of rural development policy, Chambon, Tomalino, 2009.
22. Modulation is a financial mechanism through which countries transfer part of the funds allocated to the first pillar to the second pillar of the CAP (rural development).
23. European agricultural fund for rural development. It finances the second pillar of the CAP (rural development: environmental and territorial measures).
24. The second pillar of the CAP includes four axes: No.1 the competitiveness agricultural and forestry sectors; No.2 environment and rural space; No.3 quality of life in the rural area and diversification of the rural economy; No.4 Leader.

1.2.2. Emergence of solidarity towards the most deprived people: food programme (1987)

Origin and functioning of the programme

The food aid programme for deprived people dates back to 1987, the year when Europe experience an exceptionally tough winter, with particularly serious consequences for the most vulnerable people. "In order to alleviate the humanitarian emergency the Community adopted measures to release various foodstuffs, particularly agricultural products which were available in the Community intervention stocks, to charitable organisations for free distribution to the persons in need."[25] This programme is still in force. For Mariann Fischer Boel, the former EU Commissioner for Agriculture and rural development, "it is a concrete way for the European Union to help some of the most disadvantaged people in our society"[26].

The participation of member states in the programme is voluntary and a new plan is adopted every year by the Commission. The operational management is entrusted to charitable organisations that receive foodstuffs and ensure the distribution of it to the people concerned. For the European Court of Auditors, the programme "has had a powerful leveraging effect by allowing the development of networks of charitable organisations and by facilitating coordination with public authorities." The budget for this programme, which is supported by a growing number of member states – nineteen in 2009 – has increased from 307 million euro in 2008 to 500 million euro in 2009.

25. European Court of Auditors, 2009.
26. It is targeted at the most deprived people, i.e. physical people, individuals or families or groups made up of these people, whose situation of social and financial dependence is noted or recognised on the basis of criteria of eligibility adopted by the competent authorities or is judged against criteria practised by charitable organisations and approved by the competent authorities. It is about people whose income is lower than 60% of average income. The threat of food poverty, according to the Eurostat definition, is defined as the percentage of people who cannot afford a meal with meat, chicken or fish every two days. Aid is generally provided to different categories of people living in poverty, especially families encountering difficulties, elderly people with insufficient means, people with no fixed abode, handicapped people, children in danger, poor workers, migrant workers and asylum seekers.

Social and economic motivation

The European Court of Auditors (2009) specified that the EU's food aid programme for deprived persons pursues a social objective. First of all[27], by contributing to the food security of deprived people and therefore to their wellbeing. Secondly, by stabilising markets for farm products thanks to the reduction of intervention stocks. These two objectives find their justification in the Treaty given that they "are aligned on the objectives of the CAP set out in Article 33"[28]. This double justification can be checked in the evaluation method of the efficiency of the system, which "is not measured by the number of meals offered per beneficiary but by its capacity to secure a stable outlet for products from intervention stocks and a reliable source of foodstuffs for the charitable organisations taking part in aid to the most deprived persons".

However, the social objective of the programme has been maintained several times in the absence of stocks to sell. That has been possible since a change in the application arrangements by the Commission in 1992[29] and the decision of 1995, which allowed member states to buy on the Community market products that are temporarily unavailable in the intervention stocks (crops, sugar, powdered milk, butter). Thus, when the markets are not in a surplus situation, the measure essentially pursued a social objective. Purchases accounted for 18% of the resources in the value of the programme in 2006 and 85% in 2008[30].

Despite the growing participation of member states, this situation generated opposition from some of them, considering that, in the absence of intervention stocks, with the link becoming more tenuous between

27. In 1998, the Commission recognised the social dimension of the programme as a primary objective and considered that «the measure should be implemented on a durable basis until the stocks have been run down to a normal level». In addition, noting in 2006 that 16% of EU citizens (80 million) were deprived, the European Parliament called for maintaining and increasing the aid as part of the efforts to reduce poverty. Extracts from the European Court of Auditors, 2009.
28. Commission's reply to the European Court of Auditors; *Ibid*.
29. Regulation (EEC) No.3149/92.
30. *Ibid*.

farm expenditure and social expenditure, the EAGGF budget should not finance this programme. In the context of sustainable decoupling between social measures and the regulation of agricultural markets, member states showed their reluctance towards maintaining this measure within the CAP. In September 2010, the Commission proposed to the EU-27 to extend the programme for food aid to deprived persons. Six member states (the UK, the Netherlands, the Czech Republic, Sweden, Denmark and Germany) contested the plan by noting that "this kind of aid in favour of the disadvantaged layers of the population come under social policy, which is the competence of member states and not of the CAP".[31]

Box No. 2. The measures from Article 68 (Regulation EC 73/2009) Room for manœuvre to help sectors facing specific problems

Before the healthcheck in 2008, in the context of Article 68, member states could retain, by sector, 10 percent of their national budget ceilings for direct payments and use it for environmental measures or improving the quality and marketing of products in that sector.

This possibility became more flexible in 2008. The money would no longer have to be used in the same sector. It could be used to help farmers producing milk, beef, goat and sheep meat and rice in disadvantaged regions or vulnerable types of farming. It could also be used to support risk management measures such as insurance schemes for natural disasters and mutual funds for animal diseases. Finally, countries operating the Single Area Payment Scheme (SAPS) system were to become eligible for the scheme.

Additional finance for the farmers from the 12 new member states of the EU: 90 million/€ was to be allocated to the EU-12 to make it easier for them to make use of Article 68 until direct payments to their farmers had been fully phased in.

Source : http://ec.europa.eu/agriculture/healthcheck/index_en.htm

31. Agra Presse, Monday 4 October 2010.

II – The initial types of solidarity of the CAP led astray

The creation of the CAP quickly led to a success, allowing the EU to become an exporter of agricultural products. But the initial mechanisms that served as the foundation of the CAP (financial solidarity, income support and Community preference) have had perverse effects or have been weakened over time.

2.1. A financial solidarity in contradiction with the founding principle

2.1.1.The CAP at the origin of the British rebate, a first limitation to the principle of financial solidarity

The distribution of direct aid generates disparities between the net budgetary balances of the member states in so far as the expenditure and budgetary returns benefited the big farming countries to the detriment of the countries with a strong GDP (Gross Domestic Product) but a modest agricultural sector. These imbalances were identified from the first wave of enlargement[32] and the European Commission has tried to remedy them since the first reform of the CAP[33] but in vain.

Currently, the main beneficiaries are, respectively, France (20% of expenditure), Germany and Spain (13%), Italy (11%) and the UK (9%). According to the analysis by J.C.Bureau and H.P. Witzke in 2006, "If we consider all direct payments (including pillar 2), the average EU-25 payment was €344 per hectare [...]. The average payment per hectare nevertheless reaches €3,100 in Malta, exceeds €800 in Greece and Finland, ranges between €300 and €500 in most EU-15 members and Slovenia, and is less than €300 in Portugal, Spain and a majority of the new member states, the lowest payments being in Estonia at €137 per hectare".[34]

During the accession of the UK (Dublin Council, 1975), the new member state, affected by the negative consequences of the CAP in terms of economic and financial transfers, managed to impose a limit to the principle of financial solidarity. By basing itself on the disparities between the member states generated by the allocation of CAP expenditure, the country gradually convinced everyone to accept the principle of a compensation mechanism, which was endorsed in 1984 during the European Council in Fontainebleau. The Council set the rebate for the British contribution to the European budget at two thirds of its net contribution to the "affected expenditure" and on this occasion gave a general scope to the

32. For the history and analysis of the link between the CAP and British rebate, see Mahé, Naudet, Roussillon-Montfort, The British rebate and the review of the CAP. Towards the end of financial solidarity?, 2007.
33. "The CAP must continue to be based on its basic principles: unity of the market, Community preference and financial solidarity. But it is necessary to apply these principles such as they had been originally conceived by correcting the excesses that have developed since. In particular, the principle of financial solidarity also implies the need to better distribute support by taking account of the particularly difficult situations of some categories of farmers and some regions. [...] The farming budget should therefore become the instrument of real financial solidarity in favour of those who most need it. That implies that the support ensured by market organisations be reoriented in such a way as to no longer depend almost exclusively on guaranteed prices." Extract from COM(91) 100.
34. Bureau, Witzke, EUROCARE, 2010.

principle of compensation. As from that date "any member state bearing an excessive budgetary burden with regard to its relative prosperity may benefit, when the time comes, from an adjustment"[35]. This mechanism, amended subsequently, has also concerned Germany, Austria, Sweden and the Netherlands since 2007.

Although the British rebate is permanent, the CAP no longer justifies its existence. On the contrary, we see an effect of financial overcompensation by comparison with the cost of the CAP for the UK. According to Mahé, Naudet and Roussillon-Montfort, "there are lots of reasons for this over-compensation and are in part due to the reduction of the CAP in the total expenditure of the EU". This situation can be explained by several factors. The main one, analysed by the Commission in 2004, is linked to the exceptional growth (compared to other member states) of British gross national income per inhabitant, as income per head increased from 91% of the Community average in 1984 to 111% in 2003. Other factors have contributed so that the context in which the British rebate was granted has changed. "Over the last 20 years, economic developments, enlargement and changes brought to the structure of the EU budget [...]"[36] or the changes in British agriculture and the reforms of the CAP according to the analyses of Mahé-Naudet and Roussillon-Montfort[37]. By contrast, Germany, Cyprus and Malta are particularly concerned by the effects induced by the CAP on their net balances. These imbalances are accepted here and refused there and the major disparities observed between the net national balances continues to be a major source of disagreement at a time of negotiations on the multiannual financial perspectives for which the intensity reached a peak in 2005.

35. Conclusions of the European Council of Fontainebleau, 1984.
36. COM (2004) 505 final.
37. 2001-2005 figures.

Table 1. Overcompensation for the cost of the CAP for the United Kingdom (Rebate minus the budgetary cost of the CAP for the UK, in millions of euro)

Years	2001	2002	2003	2004	2005
(1) Net budgetary transfer (1st pillar)	−2,787	−4,066	−3,409	−2,984	−3,436
(2) Rebate	+7,342	+4,933	+5,184	+5,272	5,186
Overcompensation (2) – (1)	+4,555	+867	+1,775	+2,288	+1,750

Source: Mahé, Naudet, Roussilon-Montfort, The British rebate and the review of the CAP. Towards the end of financial solidarity?, *Économie Rurale* 300/July-August 2007.

2.1.2. Does financial solidarity encourage spending?

The CAP was the subject of major tensions between member states who addressed the multiannual budgetary negotiations by calculating their "fair return"[38] because it is the primary item of expenditure and therefore the biggest 'envelope' of the common budget. The principle of financial solidarity such as it is used today in the context of the CAP encourages countries to take decisions by taking little account of the general European interest. More particularly, the exclusively Community financing of aid from the first pillar of the CAP, which will reach 33% of common expenditure in 2013, gives negotiators from the European Council the chance to defend their national interest by maximising the budgetary return and by externalising the cost of the policy onto partners. Jean-Christophe Bureau and Louis-Pascal Mahé point out that financial solidarity puts member states in the dilemma of a prisoner[39], who "prevents the emergence of cooperation and political decisions that are favourable to the public European interest". It gives rise to political decisions where the common interest is badly represented in favour of an "auction of demands for intervention that ends up making a compromise package"[40]. Thus, "financial solidarity, a

38. Le Cacheux, 2005.
39. This example of games theory shows that, faced with strong encouragements to betray the other player, a rational player chooses this option rather than cooperation that would benefit everyone.
40. *Ibid*.

usage in force that is sometimes built up as a principle, ends up in compromises that are often in contradiction with the general European interest"[41]. Both French agro-economists believe that "this logic of budgetary return has largely contributed to the decision-making process privileging national interests rather than the wellbeing of European society in the long term".

Since the 1980s, the political/institutional climate surrounding the multiannual budget negotiations has constantly deteriorated from the effect of the calculation of these budgetary returns and the disparities between net national balances.[42] To illustrate this phenomenon, we can cite the case of a rejection by the member states of a 1991 proposal[43] aiming to put a ceiling on the public support for the biggest competitive farms. The member states argued that "the modulation of support based on the size of the farm would have a discriminatory and non-economic nature"[44] and that this decision would also result in limiting budgetary returns in countries hosting a number of big farms. We note exactly the same approach in the current debates on putting a ceiling on direct aid. In addition to the current cleavages around the CAP in the run-up to the 2014-2020 budgetary negotiations, one can add extra demands for a fairer distribution of CAP expenditure from countries who became members in 2004 and 2007 as they do not benefit from aid from the first pillar to the same level as the EU-12. In the run-up to the institutional debate, we note that the CAP is likely to give rise to new clashes between countries despite a reduction in the disparities between old member states because it continues to be the top item of allocating common expenditure between them.

41. *Ibid*.
42. "As from the 1980s, the political and institutional balance of the Community's financial arrangements have come under mounting pressure from three types of difficulties: a climate of conflict in relations between the institutions; the question of budgetary imbalances; and a growing mismatch between resources and requirements." Source: Europarl, 2011.
43. "The diversity of the EEC's agricultural structures is such that farmers are not on an equal footing with each other. In these conditions, the logic of support granted by public funds should be to correct these inequalities while supporting more those who gain less advantage from the organisations of the markets. Article 39 of the Treaty reflects this objective.
It is the organisations of the markets as they operate currently which is discriminatory to the extent that, the bigger and more intensive the farm is, the more it is supported – a situation that should not exist when competitiveness is an objective." In Commission of the European Communities, 1991.
44. *Op.Cit*.

2.2. From the precursor of cohesion to 'anti-cohesion': farmers' income support

2.2.1. Income support based on historical references

The concern for equity of agricultural income, which had served to create the initial CAP, changed its nature following the various reforms. The 2003 reform shifted from aid based on support for prices and encouragement to produce to support decoupled from production and based on historical references[45], called the Single Payment Scheme (SPS). This new mechanism was directly targeted at guaranteeing income for farmers without going via an increase in productivity as was foreseen by the Treaty. Although it may be complemented by particular support regimes coupled to production and maintained for a series of products – but intended to disappear gradually to integrate the SPS – it now accounts for 72% of the total EAGGF expenditure (2008).

Single payments are highly contested to the extent that the issue of agricultural income is no longer discussed in the same terms as in 1957. Observers rightly criticise sizing this aid based on old historical yields and that the benefit of the aid, with no ceiling, went to big landowners. In addition, it becomes difficult to justify a uniform aid under the heading of fair income for farmers compared to the rest of the population when the erratic variations of agricultural prices on raw materials' markets reach new peaks. The analysis of agricultural income also describes heterogeneous realities of one subsidiary to another and therefore different situations for actors according to their speciality. In 2006, "direct payments (including all payments except investment subsidies) averaged €11,900 per farm in the EU-25. This amounted to an average subsidy of €7,400 per unit of full time worker. [...] direct payments (including pillar 2) represent only 4.7% of the value of agricultural output (without subsidies) in the Netherlands but

45. Decoupled aid has become a fixed and single payment for the farm, based on the stability of income and calculated based on direct aid received in the past (historical references). Decoupling was reinforced during the CAP healthcheck in 2009.

61.7% in Finland reflecting differences in the type of agricultural production and the structure of the farm sector".[46]

2.2.2. Direct aid against cohesion

Income support can be regarded as a precursor for cohesion to the extent that the concern for equity in agricultural income compared to the rest of the population is enshrined in the Treaty. However, the shortcomings of the current system have made direct aid a tool exerting effects running counter to cohesion. These effects have been analysed by the Notre Europe report on the reform of the CAP after 2013. We summarise them briefly below.

Concentration of payments. Direct payments have positive effects in some less favoured regions and support benefits subsidiaries whose income from agricultural activity is insufficient (e.g. suckler cattle) but the phenomenon of concentration of payments is uncontestable. "Direct payments are concentrated on a minority of farms that achieve big incomes. Aid from the first pillar is distributed as aid 'in a ticket office logic' and not according to a solidarity-based approach".[47]

In France, the EAGF (1st pillar) attributes 36% of aid, *i.e.* more than 50,000 euro per year, to 9.8% of beneficiaries and 2.5% of aid to 30% of farmers, *i.e.* less than 5,000 euro per year. On average, payments come to 20,396 euro. The method of calculation makes the distribution of aid very heterogeneous. The big crops that occupy huge areas benefit more than farms with less area oriented to animal production. That generates territorial disparities to the extent that the agricultural specialisation of the territory will more or less drain aid from the first pillar depending on the eligibility of farms. Budgetary expenditure largely benefits a small minority of farms. They do not resolve the problems inherent to farm income in general

46. Bureau, Witzke, 2010..
47. p.44 in Berthod-Wurmser, Ollivier, Raymond, Villers, Fabre; 2009

and aid is not directed towards those most needing it (regions, subsidiaries, farms).

In terms of equity, the payments' policy therefore tends to lose legitimacy after the growing number of references in the media of annual aid of over 100 million euro that benefits certain industrial groups (e.g. sugar). Beyond this criticism, the support is all the more criticised as the big farms benefiting the most from the CAP do not necessarily produce public goods to the standard of the payments received. The Commission has for a long time proposed putting a ceiling on and modulating these payments but only a limited modulation has seen the light of day so far.

The concentration of aid has had the effect of creating new splits between farmers. A growing proportion of huge entrepreneurial farms seems to want to turn their back on the historical instruments of agricultural policy to play on the global market stage, a trend which can be explained by the prospect of high prices. The gap between this group of farms and farmers whose income largely depends on direct aid is continuing to grow. This gap is all the more glaring if we look at the situation that prevails in some new member states. The gradual introduction of direct payments in Romania shows how the CAP is exacerbating the disparities: in which a million farmers are deprived of payment either because of their modest size or because they are not in a position to fill out the forms correctly whilst the big farms generally benefit from high payments.

The efficiency of the transfer of support is pretty meagre. Export subsidies are the least efficient way to transfer payments to producers, followed by the obligation to leave land fallow, support for prices and direct coupled payments. The transition towards direct payments has made it possible, by reducing the leaks of support by prices, to transmit a greater part of the levies to taxpayers and consumers to farmers themselves. However, the efficiency of single payments is affected by the l*eaks of support towards* *non-targeted beneficiaries*, because, despite the reforms undertaken since 1992, most direct payments do not work much in favour of income from work and do work a lot in favour of the value of the estate and other assets. This assessment leads Bureau and Mahé to note that farm aid programmes have benefited landowners more: "The replacement in 1993 of price support with compensation payments has not solved the problem because the landowner has continued to be the basis in the granting of rights to payment."

Box No.3. Equity in the distribution of payments: what are we talking about?

The growing pressure on the equity of agriculture spending has been particularly strong since the 1980-1990s because the link between original own resources and EU common policies (such as the link between the common external tariff on agriculture products and the CAP) no longer exists For the Commission this situation "has made the system less transparent and generated more and more doubts about its equity" [COM (2004) 505 final].

Save, perhaps, the payments for less-favoured areas, the CAP never aimed to reduce existing "natural" disparities. Finding an EU-wide common point of view on what constitutes a "fair" distribution and on how "equity" should be introduced in a sector-based policy would be difficult. There is no consensus regarding what "fair" transfers should be within the EU and whether or not the CAP should have any distribution objective within the sector itself. In some countries, the fact that large farmers reap most of the benefits is not an issue, while it is seen as shocking in others. The fact that less public support is given to smaller, barely viable, farms in less fertile areas than to efficient farms is not seen as particularly illogical in some member states. Indeed, the very issue of "compensating for natural handicaps" even appears bizarre to some member states, while others believe that maintaining farmers all over the EU territory is a fundamental cohesion objective.

Because of the lack of consensus on the difficult issue of how even should the distribution of payments be, there is little alternative to leaving member states the choice of designing the allocation of payments. This is largely what has been done since the 2003 reform, with the various possibilities for member states to reallocate the payments under Article 68 and other flexibilities. These provisions offer freedom for tailoring the CAP to the degree of aversion of inequality that corresponds to the social values of a particular member state. Going further in this area is an option. However, in such a case, it would be necessary to leave

some subsidiarity for a member state to allocate a pre-defined envelope of payments, whose amount should be calculated by common rules and based on objective criteria at the EU level.

Source: Extract of the Bureau, Witzke report, The single payment scheme after 2013: new approach - new targets, European Parliament, 2010

2.3. The erosion of Community preference

"The Community preference, which is defended by France, is contested by the United Kingdom, which wants to keep trade links with the Commonwealth. It is also a source of tension with trade partners in Europe in the context of the WTO (World Trade Organisation)."[48] The Common External Tariff (CET), which is regarded as the concrete translation of Community preference : "the rates of duty differ from one kind of import to another depending on what they are and where they come from. The rates depend on the economic sensitivity of products".[49] This has meant that the EU has been described as being an 'agricultural fortress' in the past. Today, the protection mechanisms remain[50] as the agricultural customs tariffs are higher than those applied to industrial products but the EU can no longer be regarded as a 'fortress' to the extent that the initial mechanism has evolved as is explained hereafter.

First of all, the CET varies considerably depending on the farm products: customs duties are low, reaching 6.5% on average in 2004 (WTO figures) but there is a big disparity according to products ranging from 0 to 209.9%. Historically, protection at the border has been "very high in the dairy, sugar, bovine meat and crops' sectors even if others have not been very protected. Some not very highly taxed products, such as manioc or soya will in addition compete with European crops and proteins".

48. Quermone (ed.), 2001.
49. http://ec.europa.eu/taxation_customs/customs/customs_duties/tariff_aspects/index_fr.htm
50. Cf. Matthews, 2011.

Finally, Community preference has been considerably weakened due to bilateral and regional trade agreements. The preferential agreements signed between the EU and the African Caribbean and Pacific (ACP) countries is one example of this. They “now enjoy full duty-free, quota-free access to the EU market under either the (interim) Economic Partnership Agreements or the ‘Everything But Arms’ initiative”.[51]

What is left today of this Community preference? During a number of GATT negotiations, the tools of Community preference have been gradually dismantled against the backdrop of a considerably remodelled situation. The EU has expanded to include countries in favour of free trade and the EU has become an exporter of farm foodstuffs. Its customs instruments have always been perceived by those taking part in negotiations as the mishaps of traditional tools of protectionism. That is in particular why the US urged in 1994 for an end to be put to the agricultural exception, *i.e.* the exemption of agriculture from the disciplines of the GATT.

Another demonstration of the erosion of Community preference is that the issues relating to agricultural openness (Mercosur, WTO, etc.) have been addressed by member states based on the optimisation of liberalisation compared with the national situation. Based on the industrial structure of the country and its positions with regard to agriculture, member states do not have the same interests to defend in terms of trade openness. Agriculture and its protection is therefore the subject of a “big deal” in which Community preference in agriculture is being renegotiated.

51. Agritrade, 2010.

Table No.2. Tariffs and imports: Summary and duty ranges of the EU

Summary		Total	Ag	Non-Ag
Simple average final bound		5.2	13.5	3.9
Simple average MFN applied	2009	5.3	13.5	4.0
Trade weighted average	2008	2.9	9.8	2.4
Imports in billion US$	2008	2,066.6	1,24.1	1,942.4

Table No.3. Tariffs and imports of the EU's farm products

Product groups	Final Bound Duties			
	AVG	Duty-free in %	Max	Binding in %
Animal products	24.1	20.6	162	100
Dairy products	52.3	0	180	100
Fruit, vegetables, plants	10.3	22.8	161	100
Coffee, tea	66	27.1	55	100
Cereals & preparations	21.3	6.3	111	100
Oilseeds, fats & oils	5.1	48.2	94	100
Sugars and confectionery	26.4	0	118	100
Beverages & tobacco	21.8	23.4	198	100
Cotton	0.0	100.0	0	100
Other agricultural products	4.3	66.4	117	100

Source : WTO, ITC, United Nations, Tariff profiles in the world, 2010

As from the 1980s, the integration of new measures allowed the CAP to contribute more to the development of the most fragile territories or populations through the food programme for the most deprived, through measures towards areas affected by natural handicaps and the 'three axes and Leader' proposed under the auspices of the second pillar of the CAP (since 2007). However, these payments were insufficient given the redistribution effects induced by the payments from the first pillar and the principle of financial solidarity, negative from the point of view of economic, social and territorial cohesion. At the dawn of the adoption of new financial perspectives after 2013, which reform would make the CAP more consistent with the spirit of the initial types of solidarity and cohesion objectives that emerged in the 1980s?

III – Solidarity at any price? Reforming the solidarity mechanisms within the CAP after 2013

The main shortcomings of the solidarity mechanisms created in 1962 continued to exist – in particular that of the lack of fairness in the distribution of payments – and Community preference lost its relevance in a context of trade openness. As the opportunity for an in-depth reform does arise for the CAP after 2013, a revision of the solidarity mechanisms created by the CAP and better coherence of this with cohesion seem desirable.

3.1. Rediscovering the meaning of fundamental solidarities

A precondition for solidarity: renewing the consensus around the CAP. In the spirit of the conference of Stresa (1958), financial solidarity means pooling expenditure linked to the CAP. The legitimacy of a common financial effort is based on objectives accepted by everyone. As the initial objectives have been quickly met, the reforms have diversified the objectives of the CAP without the treaty being correspondingly amended. This situation made the aims pursued not very transparent and made the debates ill informed about the role of the CAP in the eyes of European taxpayers and leaders. Before going into a reflection on maintaining solidarity mechanisms, the renewal of a consensus around objectives of the CAP accepted by everyone at the highest level would be necessary to re-explain the meaning of the CAP.

3.1.1. Establishing financial responsibility based on the subsidiarity principle

The maintenance of a common budget (financial solidarity) to finance an agricultural policy remains legitimate in view of the existence of European rural public goods and the objective of cohesion. However the principle of financial solidarity has proved an unsatisfactory institutional mechanism, since it has led to compromises which do not serve the general European interest. In order to limit the preeminence of national interests with decisions relative to the future of the CAP and its budget, the creation of a principle of financial responsibility for member states, meaning cofinancing of spending, could seem a sensible option for financing the CAP. Moreover that would allow for the principles of solidarity and responsibility of member states to be reconciled on the CAP financing.

Nonetheless, the experience of the economic crisis (2008) shows the potentially negative effects of cofinancing in terms of cohesion, in the sense that member states in difficulty cannot guarantee a commitment. The level of cofinancing required should therefore take into account the relative wealth of member states, for example by applying different rates. This would prevent a situation where the EU, in the event of a crisis, actually helps to widen the gaps between those member states capable of cofinancing Community aid - and therefore benefiting from it - and those which are not. The addition of private funds which is required by certain measures (e.g. the purchase of agricultural equipment) can also prove to be a major problem since the reimbursement of credits (whose interest rates are calculated on the basis of loans in euros) is artificially inflated by the financial parity which puts countries outside the eurozone at a disadvantage.

According to the theory of tax federalism, the financial responsibility of member states should be based on a sharing of competences and responsibility at the local, national and Community level, based on the principle of subsidiarity. Therefore, decentralisation is preferable, since the matter is better managed at the local level, while centralisation is recommended if transfer of power to the Community level gives a real added value. Concerning the CAP, local public goods would be the responsibility of local and national administrations, while European public goods[52] would be the responsibility of centralised power (e.g. biodiversity). However, previous experience in this area, and differing sensibilities from one local Community to another, creates 'normative results which, undeniably, depend on value judgements' to determine the appropriate level of competency. It is therefore difficult to assess the consequences for the CAP.

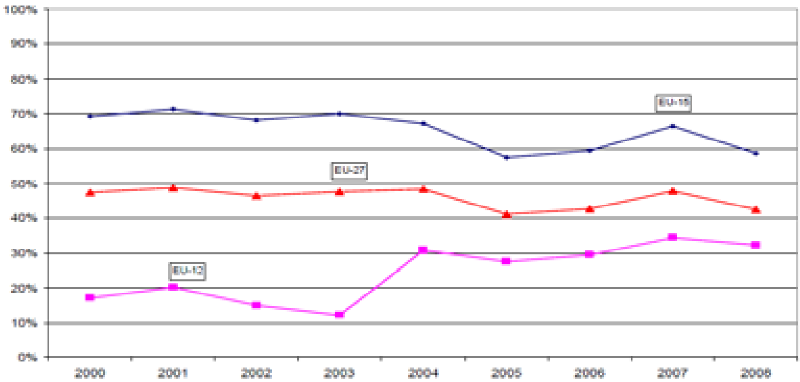
It could be useful that the principle of financial responsibility should be integrated into the CAP via the following axes: the extension of cofinancing by member states to all direct payments, and the involvement of local public powers in the development of eligibility criteria for payments, and in cofinancing by national governments. The growing involvement of local public powers in the preparation and financing of these payments, as well as their future transparency, would consolidate the political balance in the development of agricultural policy.

52. "European public goods include: the single market and its advantages such as economies of scale; the research and development sector, innovation etc.; food security and safety; the sharing and management of risks that benefit from the existence of a big market. The notion of European quality of environment encompasses global common factors such as carbon emissions or irreversible losses in terms of biodiversity. The other development approvals in rural areas or water quality are, on the other hand, mainly closer to public goods of a local nature." Bureau, Mahé, 2008

3.1.2. Income support for farmers: how legitimate is it, and for which subsidies?

The assessment of agricultural revenues has become complex and often biased, in the sense that the composition of household income should include revenues that do not arise from agricultural activity[53]. The initial aim of Community solidarity with farmers has become confused because, while the average agricultural income was far below the average revenue of the population in 1957, the situation of today's European farmers is much more diverse. Situations between regions and also between industries are particularly disparate and agricultural revenues are sometimes above average. This is why it is necessary to cautiously read the approach in terms of "average" revenue. The latter show that the average revenue per active farmer is lower than the average wage of an employee from all sectors, with situations differing greatly between the member states of the EU-15 and those of the EU-12. As the following table shows, farmers in the EU-15 have an average income equivalent to nearly 60% of the average revenue of employees in 2008, compared to 30% in the EU-12.[54]

Graph no. 1. Level of entrepreneurial income of agricultural producers per full-time equivalent and the salary of employees in the total economy per full-time equivalent (measured by AWU).



Source: Eurostat– Economic Accounts for Agriculture – Elaboration DG AGRI

53. Bureau, 2010.
54. For a detailed analyze per production see: European Commission, "Developments in the income situation of the agricultural sector", DG agriculture, 2010

Concerns related to the instability of agricultural revenue[55] remain relevant (see box 4). But the Single Farm Payment (SFP) is not an adequate tool to deal with these. Payments are not distributed fairly; certain farmers are excessively cushioned, while others remain vulnerable to shocks in terms of revenues. However, while imperfect[56], the important role currently played by the SFP as a 'shock absorber' for agricultural revenues should be highlighted, and evaluated in a systematic and complete way across the entire sector in order to assess the requirements of complementary programmes. Indeed this 'shock absorber' differs largely from one business and sub-sector to another. According to Bureau and Mahé, it is difficult to argue that the businesses concerned would completely disappear if the EU decided to progressively eliminate the SFP. However, situations are very different; large arable farming businesses have margins of flexibility in terms of adjusting facilities and reducing costs, while perspectives are gloomier for the grass-fed bovine and ovine sectors. Elsewhere, with the exception of the year 2007, numerous sectors have recorded revenues outside negative subsidies, notably the beef sector and the arable farming sector, which remain the largest beneficiaries of payments.

Today, direct payments constitute a considerable part of agricultural revenues. Despite their failings, even if other systems of payment were developed, the two French agro-economists state that "all systems of aid distribution have pernicious effects". **A system of a single payment per hectare, adjusted for each country, would therefore be the fairest.**

55. See Chalmin, With regard to Speculation, 30 September 2010.
56. The Single Farm Payments are distributed in the same way in a period of high or low income.

Box No.4. Situation and evolution of agricultural income (2000-2009) Volatility, heterogeneity and lack of profitability

Within the EU, revenue per active farmer rose by 0.6% per year on average between 2000 and 2009. Over the same period, the income per active farmer only reached on average between 40% and 50% of the average wage of employees of all sectors of activity.

Heterogeneity: We note a higher farm income within the EU-15 than the EU-12 thanks to better yields, a higher size of farm and a higher level of average income per inhabitant. however, we note a very clear movement of convergence of the EU-12 since accession to the EU where income has risen at a rate of 7.4% per year, i.e. by 67% for the whole period. The level of farm income is based on three main factors: the region and state in which one measures it, the type of production and structural factors of the farm.

Volatility: more than 54% of EU farms have experienced variations in income above 30% on average (difference with regard to the first three reference years). Volatility is critical for small farms with low income in so far as the slightest change can have a significant impact. Of all farm types, pig and poultry farms show the greatest volatility. The main factors behind volatility are variation in the prices of inputs (phytosanitary products, equipment etc.) sale prices and variations in yield.

Profitability: the DG Agri study shows a recurring problem of lack of profitability for farms given that over the period from 2004 until 2006, only 35% of the EU-25's farms were able to cover their production costs. This average must not bear the burden of differences between small farms, the most affected, and the big farms, the least affected but concerned by the problem. 38% of big farms over the period did not cover their production costs. Keeping them going therefore often relies on a consistent adjustment to underremunerate family work. This situation of weak profitability explains the very high dependence of farms on direct payments in spite of the improvements in competitiveness and the increase in the size of farms.

Source: European Commission, 'Developments in the income situation of the agricultural sector', DG Agriculture, 2010

- *Re-formulating the aim of the Treaty:* The first priority of the CAP should be to "reinforce the economic performance and competitiveness of the agricultural and food production chains". Bearing this objective in mind, the preoccupation with agricultural income remains pertinent, considering the failure of markets to manage risk. The catastrophic risks inherent to agricultural activity (e.g. climate, pandemic) discourage insurers from providing risk coverage. For example, the risk of a bad harvest is strongly linked to individual farmers in the same geographical zone, which does not lend itself to private insurance. **Public management of catastrophic risks (which, although very unlikely, carry high levels of damages) could improve the functioning of a private insurance market.** A certain level of subsidisation could prove necessary to encourage insurance companies to propose cover to all producers – and not just to the most profitable farmers, in order to stimulate interest among others. However, public intervention regarding insurance covering the risks of prices and revenues should remain a simple mechanism aimed at preventing spikes in budgetary spending, and poor transmission of aid to producers. Instead of investing in complex systems of insuring prices or revenues, public intervention would probably be less costly if it was limited to a simple floor price, at least for certain key productions.

Considering these observations, the objective regarding revenue defined in Article 39 of the Treaty of Rome could be re-worded as follows: "Provide a shock-absorber for economic or natural disasters, and for drastic price drops, and contribute to the creation of self-financing systems in order to reduce the volatility of revenue." Public intervention would therefore aim to guarantee a minimum price (or 'safety net') limited to exceptional circumstances and compatible with the rules of the WTO.

- *From an income support system towards a safety net.* Bureau and Mahé suggest that direct aids should be converted into a general contractual scheme including three levels of payments: basic husbandry payments (BHP); natural handicap payments (NHP) and green-points payments (GPP). The establishment of basic agricultural payments, which would maintain support in a general way but would reduce by more than half the current level of SFP payments – would play a key role in supporting revenues, and would encourage farms to adopt good agricultural practices in order to benefit from other payments, in this case environmental subsidies[57]. The maintenance of such direct payments is justified by the constraints imposed in Europe on production methods, which are stricter than those imposed on the majority of foreign competitors.

- *How should the transition be made?* When considering the level at which payments of this type should be maintained after 2013 for large commercial farms, a question arises concerning the margins of flexibility of their cost structures to allow the transition from the SFP system towards the new system. Even if these structures are technically very efficient, revenues are currently heavily dependent on the amount of SFP received. These payments are at least as compatible with green box[58] criteria as the current SFP. After an application period of five to ten years, the re-organisation of costs, as well as the technical progress and inflation recorded may or may not justify a decrease in these payments – as should have been the case with those payments introduced in 1992.

"Such far-reaching re-organisation would allow for the decoupling of historical payments and improve incentives for farmers. It would create greater equality between regions and farms. Traditional agricultural activity would earn a larger share of its revenues from market prices and from its role as producer. To illustrate the order of size; an ultra-modern farm managing 200 hectares of crops would receive up to 30,000 euros of direct aid, while a large farm of 50 hectares either in a less-favoured area or having taken on the maximum level of environmental commitments could receive up to 20,000€ (50 times 400€)."[59]

57. The authors of the *Notre Europe* report propose a system of contractual payments at three levels: basic payments, payments linked to a natural handicap and 'green points' payments.
58. In WTO negotiations agricultural subsidies are ranked in three boxes: "green box" for the unlimited authorized subsidies; "blue box" for tolerated subsidies, "orange box" for subsidies to be reduced.
59. Bureau, Mahé, 2008

In order to render the CAP compatible with the principle of cohesion under the Lisbon Treaty, and with equity in European policies, Article 39 could re-words as follows: "Harmonising the efficiency of subsidies with equity between individual beneficiaries and the objectives of cohesion between regions and member states."[60]

3.1.3. Retain a level of Community preference compatible with our international commercial engagements

In a context of commercial openness, where customs protection is reduced under bilateral and multilateral agreements and allocated concessions, does Community preference make sense? In 2008, French President Nicolas Sarkozy exhumed[61] the principle of Community preference and called for a renewal of the concept, but a general outcry from the agricultural and trade commissioners of the time quickly put paid to any intention of returning to the commitments made under that principle; therefore, protectionist ambiguity remains. The French Senate is more moderate, it suggests "in the absence of maintaining the principle of Community preference, which would be difficult to defend to our partners, international agricultural trade should respect the principle of reciprocity. Europe should deal with agricultural competition on equal terms, checking that the production, health and environmental standards which it imposes are also respected by countries exporting to Europe."[62] For the French Senate, compliance with health and environmental standards – for which the EU currently provides a global benchmark – is the result of legitimate concerns over public health, environmental, cultural and even political issues (e.g. town planning).While the principle of reciprocity was recognised, the conditions in which it would be applied should be rigourously examined[63] to avoid it being used for purely protectionist purposes.

60. *Ibid.*
61. *Le Monde*, 02/04/08
62. Bizet, Emorine, Bourzai, Herviaux, 2010.
63. Bouët, Bureau, 2001.

Bureau and Mahé also consider that a certain level of protection for extremely sensitive production is justified: “The protection exercised by the intermediary over the volumes and prices of imported beef is particularly important for the sector, whose role in the supply of non-market goods is crucial from the perspective of rural development.” That is why they suggest that the original principle of Community preference should be replaced with “a degree of Community preference, synchronised with the aims of the CAP and compatible with Europe’s trade commitments”.

3.2. Towards an agricultural policy compatible with cohesion

3.2.1. Reinforcing food aid for the poorest citizens

The CAP is not, strictly speaking, a food policy. However, for the most disadvantaged citizens of relatively wealthy old member states, and for a large number of citizens of new member states, which, overall, are poorer, the loss of purchasing power due to the customs protection and price support in place is significant. The gap separating the amount of aid granted to not particularly poor farmers and the meagre subsidies allocated to the charitable organisations running food programmes for poor sections of the population is difficult to justify.

In France, the EU only provides 30% of the resources of food banks. The programme’s capacity to help poor citizens is limited; on average, it provides only one meal a month. Despite the increase in budgetary credits in 2006, 2007 and 2008, the amount available per person was, respectively; 6.24€/person, 5.73€ and 5.83€[64].

This shortage contrasts with aims of global food security which is used to defend the CAP, and which disregards the individual food security of the most disadvantaged citizens within the EU. The establishment of a

64. European Court of Auditors,

generous food aid programme targeted at the poorest citizens, within the framework of a general policy devoted to agriculture and rural development, would be more in line with the stated objectives of food security than the current agricultural policy.

3.2.2. Beyond farming, public aid for rural communities

Rural development aims to preserve viable communities in rural areas. In other words, inhabitants should have access to necessary services and be able to enjoy an acceptable level of social life. Difficulties are often greater in very lightly populated areas, while rural communities situated close to urban centres, which generally have access to services and the employment market and do not depend solely on agriculture in economic terms, experience fewer problems. The presence of reasonably good quality services requires the existence of a critical mass to render a profession (e.g. medical) or an infrastructure (educational, sporting or cultural) viable for the private sector, or justifiable in terms of public subsidies. The most important economic factors contributing to the vitality of a rural community are agriculture, forestry and other extraction activities. Nonetheless, rural communities can also take advantage of the opportunities that natural resources provide for hobbies, such as tourism, or simply for residence. Rural development can also make use of economic activities which are less demanding in terms of the location of the business, but for which the presence of manpower and rural infrastructures could prove an advantage.

In most cases, agriculture cannot provide the sole basis of economic activity. Figures show that agricultural activity only accounts for an average of 20% of jobs in rural areas. In areas specialised in cultivation or breeding of pasture-fed livestock, there is a flagrant contradiction between the size of farms as dictated by the requirements of efficiency, and the objective of preserving a sufficient density of agricultural population. Therefore, rural development policy should not only target the agricultural sector.

Unfortunately, programmes conceived under the guidance of rural development policy have too often followed this tendency. Most reports cite a serious imbalance in favour of agriculture, to the detriment of support for other actors in rural areas. Direct payments therefore find their economic justification in the occupation of lands and the preservation of the countryside, as much as in the protection of open agricultural space from neglect, overgrowth and reforestation, and the preservation of agricultural practices which respect the environment. But the enlargement of the rural development base is justified. Boosting the attractiveness of rural areas means the creation or improvement of infrastructure, public services and other public goods.

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Annex - Share of payments under the heading of the Single Payment Scheme and from pillar 2 in work receipts, by type of farm in % (2006)

Extract from Jean-Christophe Bureau, Heinz-Peter Witzke, EUROCARE, The single payment scheme after 2013: new approach – new targets, European Parliament, January 2010

Table 1.1. Share of SPS and Pillar 2 payments in returns to labour, per type of farms in %, 2006

Type of farming	BEL	CYP	CZE	DAN	DEU	ELL	ESP	EST	FRA	HUN	IRE	ITA	LTU	LUX	LVA	MLT	NED	OST	POL	POR	SUO	SVE	SVK	SVN	UKI	EU25
	Payments first pillar, as a ratio of returns to labour (net farm income plus salaries paid)																									
Field crops	33	45	61	94	73	81	49	57	97	64	62	38	45	52	46	31	23	44	20	47	144	236	585	199	68	62
Milk	37	44	46	78	54	38	19	40	79	46	44	20	25	50	33	46	47	27	14	43	98	84	<0	52	47	44
Other grazing livestock	64	58	65	<0	120	31	38	47	104	119	92	29	24	112	38	9	49	53	22	63	171	183	260	173	128	63
Granivores	10	1	6	23	43	3	8	2	33	33	21	6	12	22	9	55	9	18	11	1	85	68	<0	23	7	14
Horticulture	2	3	7	3	2	5	2	4	3	6	-	1	6	-	5	20	0	81	2	6	42	6	-	10	1	3
Quality wine	-	150	17	-	2	176	9	-	3	7	-	1	-	3	-	-	-	17	-	5	-	-	<0	3	-	4
Other wine	-	87	5	-	-	29	2	-	16	3	-	4	-	-	-	2	-	-	-	4	-	-	-	1	-	9
Other permanent crops	1	59	11	4	3	31	16	5	12	33	-	12	8	26	25	22	1	7	6	23	29	<0	<0	41	1	16
Total	26	39	49	66	53	40	24	41	60	52	69	18	34	48	33	32	16	31	15	34	104	111	<0	74	59	37
	Total payments (pillar 1 and pillar 2), as a ratio of returns to labour (net farm income plus salaries paid)																									
Field crops	39	55	82	103	84	92	53	95	102	87	76	43	70	106	100	43	28	87	53	56	316	288	840	261	80	75
Milk	46	48	74	87	70	47	21	66	93	60	56	23	41	93	75	58	52	70	43	54	152	131	<0	77	55	60
Other grazing livestock	77	66	191	<0	165	42	42	104	145	151	145	38	55	203	111	13	65	106	76	83	315	325	737	316	177	90
Granivores	12	1	13	26	52	4	9	11	37	50	24	6	19	44	15	62	10	30	39	1	119	98	<0	28	7	21
Horticulture	5	4	10	7	3	6	3	14	5	11	-	1	15	-	8	28	3	206	5	9	43	12	-	15	2	4
Quality wine	-	150	38	-	6	261	10	-	4	26	-	3	-	14	-	-	-	50	-	19	-	-	<0	11	-	7
Other wine	-	106	12	-	-	31	2	-	21	25	-	5	-	-	-	3	-	-	-	23	-	-	-	1	-	12
Other permanent crops	2	70	19	6	6	34	18	21	16	72	-	15	29	55	66	41	4	28	14	44	65	<0	<0	85	3	19
Total	32	46	75	74	66	46	26	72	70	72	102	22	54	90	74	40	19	70	43	49	185	160	<0	121	73	**48**

Source: FADN 2006. The symbol "<0" refers to cases where the returns to labour (net farm income plus wages paid to hired labour) were negative for this category of farms

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